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# Report on the implementation of the International Public Sector Accounting Standards*

*Summary*

When the United Nations system accounting standards were first developed, international accounting standards for not-for-profit organizations did not exist. Because of this gap, the United Nations Board of Auditors recommended that the United Nations system develop its own accounting standards. Since then, the International Public Sector Accounting Standards (IPSAS) have been developed for not-for-profit public sector organizations. IPSAS are a set of high-quality, independently developed accounting standards that require accounting on a 'full accrual" basis, which is considered the best accounting practice by international organizations for the public sector. IPSAS also includes requirements and guidance for financial statement consistency and comparability. This paper highlights the position of the United Nations Development Programme (UNDP), the United Nations Population Fund (UNFPA), the United Nations Office for Project Services (UNOPS), the United Nations Capital Development Fund (UNCDF) and the United Nations Development Fund for Women (UNIFEM) in regards to IPSAS adoption.

## Introduction

1. The General Assembly, in its resolution 60/1 of 16 September 2005, requested the Secretary General to take a number of actions for strengthening the United Nations in the context of Secretariat and management reform. The General Assembly report entitled *Investing in the United Nations for a stronger Organization worldwide: detailed report*

* The compilation of data required to provide the Executive Board with the most current information has delayed submission of the present report.

(A/60/846/Add.3) of 12 May 2006 proposes that the United Nations adopt IPSAS for its financial statements and that the General Assembly endorse United Nations system-wide adoption of IPSAS by 2010. Through its resolution 60/283 of July 2006, the General Assembly decided to approve the adoption by the United Nations of the International Public Sector Accounting Standards.

2. The United Nations Board of Auditors and the Specialized Agencies also supported the adoption of IPSAS.

3. UNDP, UNFPA and UNOPS believe that the adoption of IPSAS will:

(a) support more effective use of the financial and human resources;

(b) improve the extent to which financial policies, regulations and rules, business practices and procedures respond to the needs of the organization;

(c) take into account measures for the reform of human resource management and the budgetary process;

(d) provide a consistent, comparable and harmonized platform of United Nations system financial reporting and will facilitate the transition to the joint office concept; and

(e) allow easier adoption of, and maximum benefit from, changes to the Atlas system.

# I. Current accounting standards

4. The United Nations system organizations, including UNDP, UNFPA, the United Nations Office for Project Services (UNOPS), the United Nations Capital Development Fund (UNCDF) and the United Nations Development Fund for Women (UNIFEM), collectively referred to as the Atlas partner-agencies, currently operate in accordance with United Nations System Accounting Standards (UNSAS). The UNSAS were developed to provide a consistent application of accounting principles and standards across the United Nations system. Over time, however, UNSAS has not been able to keep pace with changing accounting developments or the accounting methodologies used throughout the United Nations system.

5. Based on a review sponsored by the High-Level Committee on Management (HLCM), and after reviewing a number of other international accounting standards, the Task Force on Accounting Standards recommended that the United Nations system adopt IPSAS. The recommendation was also endorsed by the Finance and Budget Network and in November 2005 the High Level Committee on Management accepted the recommendation that the United Nations system adopt IPSAS (CEB/2005/HLCM/R.25). It should be noted that the first set of IPSAS-compliant financial statements will be available for the year ending 31 December 2010.

## II. Adoption of IPSAS

6. The General Assembly report entitled *Investing in the United Nations for a stronger Organization worldwide: detailed report* (A/60/846/Add.3) of 12 May 2006 states, "IPSAS are credible, high-quality, independently produced accounting standards, underpinned by a strong due process and supported by Governments, professional accounting bodies, and international development organizations such as the International Organization of Supreme Audit Institutions (INTOSAI), the Organization for Economic Cooperation and Development (OECD) and the World Bank." The standards represent international best practices for public sector and not-for-profit organizations accounting.

7. The adoption of IPSAS standards by the United Nations system will improve the quality and comparability of financial information across the system itself. Adopting IPSAS standards should produce a level of standardization or harmonization of financial regulations and rules, business practice policies and procedures, and financial statement presentation. Local governments are also implementing IPSAS, which would create synergy between the United Nations organizations and governments with regard to donor reporting.

8. IPSAS standards deal with financial reporting under a cash or accrual basis of accounting. Atlas partner-agencies will therefore have to change from a modified accrual method of accounting, as practiced under UNSAS, to a full accrual method of accounting. For expenses, the modified accrual method records and reports expenses based on the approval of purchase orders, while the full accrual method records expenses based on the delivery of goods and/or services. The full accrual method is considered the best accounting practice by international organizations for the public sector. This may have an impact on expenditure reporting in the first year of the IPSAS implementation, but it will even out over the biennium.

9. There are 21 IPSAS standards to be reviewed and considered for adoption. The accounting treatment and reporting of various items will change as IPSAS standards are adopted. Some of the major changes deal with treatment of:

(a) Property, plant and equipment (fixed assets);

(b) Inventory;

(c) Presentation of financial statements;

(d) Full recognition of liabilities for employee benefits (after service health insurance (ASHI), leave balance);

(e) Effects of changes in foreign exchange rates; and

(f) Revenue recognition as it applies to revenue from non-exchange transactions.

10. Consequently, the adoption of IPSAS standards will result in a review of and possible changes to Financial Regulations and Rules, the internal control framework, other policies and procedures manuals, and

the Atlas system configuration. The planned changes to Atlas will be directly affected by decisions coming out of the IPSAS adoption project[1]. IPSAS adoption will also have budget and funding implications. For example, IPSAS will require a full statement on budget performance, which may impact the basis of budgeting, as well as the issue of funds availability and funds requirements with respect to accrued staff entitlements – including After-Service Health Insurance payments. While IPSAS does not require issuance of annual audited financial statements, it is considered a 'best practice', and hence the issue of annual rather than biennial external audits will need to be evaluated and addressed.

11. The Atlas partner-agencies are already working together on IPSAS adoption. It should be noted that UNDP and UNFPA comptrollers, as part of the United Nations Development Group (UNDG) Executive Committee, are also currently engaged in an exercise to harmonize their Financial Regulations and Rules, accounting policies and procedures for similar business processes, initially with the United Nations Secretariat and other UNDG agencies. That work will eventually contribute toward a similar initiative coordinated by HLCM Finance and budget network task force for all United Nations organizations.

12. Inevitably, there will be underlying costs, both one-time and recurring, which will be part of the IPSAS adoption process. Although not all costs have yet been identified, they could be expected to include: additional internal and external resources to staff working groups or testing teams; development of harmonized regulations, rules and procedures; reconfiguration of the Atlas system to accommodate IPSAS; purchase of additional system modules; staff training cost; reports development costs; and the additional cost of an annual external audit, if adopted. In addition, the disclosure requirements of IPSAS are rigorous and extensive in comparison to UNSAS, and this will require additional capacity both at country offices and headquarters.

## III. Implementation and early adoption

13. IPSAS adoption is a major change that will require significant investment in people, information systems, project management, communications, training and testing. The Atlas partner-agencies are expected to be fully IPSAS-compliant by 2010. The IPSAS implementation is being set up as a programme including three projects: accounting policies and procedures, reporting, and changes to Atlas financials.

14. It should be noted that there are planned changes to Atlas. Other system-related installations that may be affected by IPSAS adoption are: enterprise performance management; current reporting modules (including the statutory reports facility); budgeting and scorecard analytics; human

[1] The IPSAS adoption project involves the analysis, development, testing and evaluation of new processes, policies, manuals, procedural guidance and system changes, and staff training resulting from the movement from UNSAS to IPSAS.

capital management; and payroll. It is also possible that new Atlas modules may have to be purchased to support IPSAS standards.

15. The process of moving from the current accounting standards to IPSAS will involve a multi-layered fit/gap analysis of current business processes and accounting treatment, expected IPSAS business process and standards, system solutions and configuration changes, and revisions to policy and procedures documents and manuals.

16. As the project moves forward, it is the intent of UNDP and UNFPA to inform the Executive Board, through regular progress reports, of changes to Financial Regulations and Rules, firm adoption deadlines, the effects on current business practices, and task-related costs.

17. While IPSAS will drive a level of harmonization that will significantly contribute towards several United Nations reform initiatives it represents, nevertheless, a challenge for the United Nations system.

## IV. Benefits of IPSAS adoption

18. As stated in the General Assembly document A/60/846/Add.3, the benefits of IPSAS adoption include:

(a) Improved internal control and transparency with respect to assets and liabilities generally;

(b) The alignment of United Nations accounting with best accounting practices through the application of credible, independent accounting standards on a full accrual basis;

(c) More comprehensive information about costs that will better support results-based management;

(d) The integration of non-expendable equipment into the accounting system, with resulting improvements in the accuracy and completeness of non-expendable equipment records; and

(e) Improved consistency and comparability of financial statements as a result of the detailed requirements and guidance provided in each standard.

*Recommendation*

19. The Executive Board may wish to take note of the fact that, in accordance with General Assembly resolution 60/283, UNDP, UNFPA and UNOPS will fully comply with IPSAS requirements effective from the financial year beginning 1 January 2010.